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Financial reports and audited financial statements, and reports of the Board of Auditors

Programme budget for the biennium 2006-2007

Financing of the International Criminal Tribunal for the Prosecution of Persons Responsible for Genocide and Other Serious Violations of International Humanitarian Law Committed in the Territory of Rwanda and Rwandan Citizens Responsible for Genocide and Other Such Violations Committed in the Territory of Neighbouring States between 1 January and 31 December 1994

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Administrative and budgetary aspects of the financing of the United Nations peacekeeping operations

Liabilities and proposed funding for after-service health insurance benefits

Report of the Secretary-General

Summary

In his report on liabilities and proposed funding for after-service health insurance benefits (A/60/450 and Corr.1), the Secretary-General proposed the approval of a number of recommendations to begin recognizing and funding the United Nations liability for after-service health insurance benefits. The General Assembly, in section III of its resolution 60/255, recognized the end-of-service accrued benefit liabilities reported by the Secretary-General and requested him to take the necessary steps to disclose those liabilities in the United Nations financial statements. In the same section of resolution 60/255, the General Assembly also

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decided to defer its consideration of the remaining proposals made by the Secretary-General in his report and requested the Secretary-General to submit a report to it at its sixty-first session that would provide further explanation of the after-service health insurance programme, address the issues raised by the Advisory Committee on Administrative and Budgetary Questions in its report (A/60/7/Add.11), provide updated information on the status of liabilities, clarify the assumptions used to determine liabilities and provide alternative strategies to fund the liabilities.

The present report provides the additional information requested in section III of resolution 60/255 and requests the General Assembly to approve the updated recommendations to begin funding the United Nations liability for after-service health insurance benefits. Actions requested to be taken by the General Assembly are included in section XI of the present report.

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I. Introduction

1. In his report on liabilities and proposed funding for after-service health insurance benefits (A/60/450 and Corr.1), the Secretary-General proposed the approval of a number of recommendations to begin recognizing and funding the liability of the United Nations for after-service health insurance benefits. In considering the report of the Secretary-General, the Advisory Committee on Administrative and Budgetary Questions observed that the United Nations health insurance programmes provide for premium-sharing between the United Nations and plan participants (active and retired), in accordance with General Assembly resolutions 1095 (XI) of 27 February 1957, 38/235 of 20 December 1983 and 41/209 of 11 December 1986, and that the resources for the after-service health insurance subsidy for retirees are appropriated under the special expenses section of the programme budget on a pay-as-you-go basis without providing for funding of the accrued liability for after-service health insurance benefits earned by employees during active service.

2. While noting the increase over the past 20 years in the number of retirees enrolled under the after-service health insurance programme and the increase in the pay-as-you-go cost of providing such benefits, the Advisory Committee on Administrative and Budgetary Questions stressed the need to update the 2003 accrued after-service health insurance liability valuation as reflected in the Secretary-General's report and requested that detailed information be provided regarding the underlying methodology for arriving at the valuation and explaining how the after-service health insurance liabilities were derived.

3. The Secretary-General had proposed a two-tiered funding strategy for after-service health insurance benefits, with the first tier consisting of one-time funding of $350 million derived from unencumbered balances, retained surplus and health insurance and compensation reserve funds, and the second tier consisting of annual long-term funding measures. The Advisory Committee questioned the rationale for utilizing unencumbered balances and retained surplus to fund after-service health insurance, but indicated that it had no objection to the proposed transfers from the health insurance and compensation reserves to an independently segregated reserve fund, provided that assurance was received that it is not anticipated that the amounts so transferred will be needed to meet medical and dental and compensation claim costs in the future.

4. With respect to the proposed annual funding measures, the Advisory Committee had no objection to the Secretary-General's proposal to continue biennial appropriations to cover after-service health insurance subsidy payments for current participants. In addition, the Advisory Committee agreed in principle with the proposal to charge a certain percentage of salary costs as a means of building a fund for after-service health insurance payments. However, the Committee was of the view that further and more detailed analysis should be undertaken to support a specific percentage and also felt that special attention should be paid to such issues as the relationship between an additional charge on salary costs and programme support costs applied to extrabudgetary activities. The Committee also questioned the proposed use of savings under the regular budget to supplement the funding derived from the other proposed annual funding sources mentioned, noting potential transparency and budgeting issues and stating that savings achieved as a result of efficiency gains should be directed to the Development Account.

5. The Secretary-General had also proposed, and the Advisory Committee recommended, approval of revisions to the after-service health insurance programme aimed at reducing future costs of providing after-service health benefits.

6. In considering the reports of the Secretary-General and the Advisory Committee, the General Assembly, in section III of its resolution 60/255, recognized the end-of-service accrued benefit liabilities reported by the Secretary-General and requested him to take the necessary steps to disclose those liabilities in the United Nations financial statements. In the same section of resolution 60/255, the General Assembly took note of the remaining proposals made by the Secretary-General in his report and requested the Secretary-General to submit to the Assembly at its sixty-first session a report that would provide further explanation of the after-service health insurance programme, address the issues raised by the Advisory Committee on Administrative and Budgetary Questions in its report (A/60/7/Add.11), provide updated information on the status of liabilities, clarify the assumptions used to determine liabilities and provide alternative strategies to fund the liabilities. The present report provides, for consideration by the General Assembly, the additional information requested in section III of resolution 60/255 and requests the Assembly to approve the updated recommendations to begin funding the United Nations liability for after-service health insurance benefits.

II. After-service health insurance programme and the United Nations health insurance schemes

After-service health insurance programme

7. The after-service health insurance programme extends health-care benefits under the United Nations health insurance schemes to retirees and their dependants under the same plans as for active staff and provides the same benefits for active and retired staff. A former staff member and his/her covered dependant(s) may continue to be a member of a United Nations health insurance scheme for which the staff member and his/her dependant(s) were eligible prior to retirement, provided that the staff member meets the eligibility requirements under the after-service health insurance programme. At present, a staff member is eligible for after-service health insurance benefits if he/she is at least 55 years of age, has been affiliated with a scheme of an organization of the United Nations family for at least five years and has elected to receive a periodic retirement or early retirement benefit from the United Nations Joint Staff Pension Fund. Reduced cost-sharing of benefits requires a minimum of 10 years of participatory service. Staff who retire on a disability retirement at any age are also eligible for after-service health insurance coverage. More detailed information on the rules and regulations of the programme are provided in the Administrative Instruction on after-service health insurance dated 19 May 1994 (ST/AI/394), which can be found on the insurance website at www.un.org/insurance (see annex II for website information).

Health insurance plans available to active and retired staff

8. The United Nations health benefit programmes are not insured, but are rather self-funded for both active and retired staff and their covered dependants. Most sponsors of employee benefit plans with more than 2,000 subscribers self-fund their health plans. Self-funded arrangements are a more financially advantageous means

of financing as they result in more favourable cash flows and enable the Organization to hold the reserves for incurred but not reported claims and related investment gains, both of which would otherwise be held by the insurer. While the health insurance schemes of the United Nations are self-funded, outside companies are in general engaged as third-party administrators for the general management of the plans and for the adjudication of claims.

9. The United Nations health insurance schemes provide medical and dental benefits to United Nations staff members and retirees worldwide. Staff of United Nations funds and programmes also participate in the schemes. The plans currently available to staff and to retirees who meet the after-service health insurance eligibility requirements are as follows:

(a) Headquarters programmes:

(i) Aetna Open Choice Preferred Provider Organization;

(ii) Empire Blue Cross Blue Shield Preferred Provider Organization;

(iii) Health Insurance Plan of New York;

(iv) CIGNA Dental Preferred Provider Organization;

(b) Van Breda International Insurance Programme (worldwide except for the United States of America);

(c) Medical Insurance Plan for locally recruited staff at designated duty stations away from Headquarters;

(d) United Nations Staff Mutual Insurance Society against Sickness and Accident for Geneva-based organizations;

(e) United Nations Office at Vienna/United Nations Industrial Development Organization Group Medical Insurance with Van Breda;

(f) Austrian Sickness Insurance Scheme (Wiener Gebietskrankenkasse).

10. As is the case for most comprehensive health insurance programmes of large employers today, the above-mentioned health plans in general provide coverage of 70 to 100 per cent of hospital expenses and 80 per cent of reasonable and customary costs for other covered medical services. The health plans allow a choice of medical/dental practitioners, pharmacists and health-care establishments, subject to certain restrictions and reimbursement limitations. Cost containment measures are structurally built into the Preferred Provider Organization and health maintenance organization plans by virtue of their network of providers and are obtained through discounts that have been negotiated with medical providers in the case of self-administered plans. Maximum reimbursable overall amounts and maximum reimbursements for specific medical services also contain costs. A general description of each of the plans listed above is provided in annex I. More detailed information regarding benefit coverage and contribution rates under each plan is available on United Nations websites, a list of which is provided in annex II.

Participant contributions

11. Participant contributions under the United Nations health insurance schemes are dependent upon the coverage type (that is, single, staff member/retiree plus one or family) and health plan election. In accordance with General Assembly resolution

1095 (XI) of 27 February 1957, contributions are also based on the individual's salary or pension level so that staff and retirees at lower salary and pension levels have a larger portion of health benefit costs shared by the Organization than do staff and retirees at higher salary and pension levels.

12. Contributions by active staff are determined on the basis of rates applied against net salaries ranging for plans based in the United States from 2.58 to 4.16 per cent for individual coverage and 5.82 to 8.10 per cent for family coverage. For plans providing coverage outside the United States, the rates range from 1.57 to 6.17 per cent for individual coverage and from 3.83 to 8.59 per cent for family coverage. In the case of the United Nations self-administered Medical Insurance Plan for locally recruited staff in the General Service and related categories at non-Headquarters designated duty stations, rates of contribution are 1 per cent of salaries for individual coverage and 2.25 per cent for family coverage.

13. Contributions by retirees under the Headquarters plans are determined on a sliding scale, with specific contribution amounts defined for 22 ranges of monthly pension values. In other duty stations, retiree contributions are calculated at fixed rates applied against pension ranging from 1.58 to 3.08 per cent for individual coverage and from 3.16 to 4.30 per cent for family coverage. The Medical Insurance Plan contribution rate for eligible local staff who participate in after-service health insurance is applied to one half of their salary adjusted at retirement, as the local salary scales are adjusted from time to time.

14. Overall, the aim of the establishment of the ranges and rates is for participants in after-service health insurance to contribute about half of what staff members pay under the corresponding medical plans and coverage types. For both active and retired staff, the contribution rates/amounts are revised annually, so that in accordance with resolution 38/235, active staff and retirees as a combined group contribute 33.33 per cent of the costs associated with the Headquarters health benefit plans, 50 per cent of the costs of plans providing coverage outside the United States and about 25 per cent of Medical Insurance Plan costs. The goal of having retirees contribute about half of what active staff pay, while also maintaining the combined ratios, is achieved for the Headquarters plans through an internal cost-apportionment arrangement that does not alter the cost-sharing ratio between the Organization and the contributors to the health insurance plans as a group, but rather reallocates a portion of the Organization's share from active staff to retirees.

Comparison of the contribution of participants in health insurance plans with other entities

15. The benchmarks used by the United Nations for its insurance programmes are based on an annual survey of more than 2,500 plan sponsors in the United States. The survey is conducted by Mercer Human Resources Consulting of New York. The survey reports data for large plans (over 500 employees) and for government plans. The United Nations uses both categories for comparison. While the identities of the specific companies or governmental agencies whose data are included in the survey are not known, the overall comparison for preferred provider organization plans based on 2005 data for the United Nations indicate that the overall cost borne by participants under the Headquarters health insurance programmes is within the same general range as that for other programmes in the United States.

16. The website of the Government of the United States indicates that the medical insurance programme for federal civilian employees consists of a vast number of health plans with different premium structures in place for each state and policy type. According to the guide to federal employees' health benefits, the Government pays 72 per cent of the average premium, but not more than 75 per cent of the total premium, of any plan, compared with the 66.67 per cent paid by the United Nations for its medical insurance plans for United Nations staff stationed at Headquarters.

17. As evident from the above and annex I, the United Nations health insurance schemes are in line with programmes offered by other large organizations and government entities, both in terms of the health insurance protection offered and the overall cost-sharing. The continuation of health insurance coverage under those schemes as provided by the after-service health insurance programme is a vital element of social security for retiring staff members, as many cannot benefit from the national social security schemes of Member States owing to their service with the United Nations. The Secretary-General attaches a high degree of importance to this programme and, therefore, to the viability of its financial base, which requires that measures be initiated to ensure that progress is made towards funding the related accrued liabilities.

III. Actuarial method and assumptions used for the valuation of after-service health insurance liabilities

18. Actuarial valuations of the United Nations after-service health insurance liabilities are calculated for each biennial financial statement by a consulting actuary. Since such benefits are payable for the lifetime of the retiree and his/her spouse, the valuations determine the present value of each participant's and his/her family's expected benefits after the staff member's retirement or death, taking into consideration age, mortality rate, years of service and gender, while also taking into consideration compensation levels, economic assumptions and medical cost trends for the group as a whole.

19. The actuarial method used for this calculation is the projected unit credit method for valuing pension and after-service benefits. This is the actuarial method prescribed by International Accounting Standard 19 and is the method currently required under the International Public Sector Accounting Standards, which were approved by the General Assembly in its resolution 60/283 for implementation by the United Nations. International Public Sector Accounting Standards exposure draft 31, issued on 26 October 2006, is a draft standard for employee benefits based on International Accounting Standard 19 and also requires the use of the projected unit credit actuarial method in valuing employee benefits. Under this method, which follows the precepts of full accrual accounting, after-service health insurance benefits accrue during the active service life of staff members and are considered a form of deferred compensation. As such, it is essential to realize that the liabilities for this post-employment benefit accrue and are recognized annually, as staff members provide service in exchange for benefits to be paid in the future and are fully covered when benefits become due. This incremental accrual represents the annual service cost of the plan. There is also an annual interest cost, because the accrued liability figure is calculated as a discounted value of future benefits.

20. The actuarial valuation calculates the present value of projected after-service health insurance benefits, using actuarial assumptions, which are explained further below, for every active and retired participant in the United Nations health insurance programmes. Since the actuarial method provides for the accumulation of the after-service health insurance liability during the working life of employees, a portion of the future after-service health insurance benefit is considered to be accrued for every year of service until full eligibility for such benefits is reached. The total accrued liability figure for the programme therefore consists of the present value of:

(a) Fully accrued liabilities related to retirees and beneficiaries of after-service health insurance;

(b) Fully accrued liabilities related to those active staff members who have already reached the service and age requirements for participation in after-service health insurance but who have not as yet retired from the Organization;

(c) In the case of those staff who have not as yet met the service and age requirements for retirement and participation in after-service health insurance, that portion of the projected after-service health insurance liability that has accrued from the staff member's date of hire until the valuation date.

These valuations, however, take into consideration that not all staff will ultimately be covered by after-service health insurance through the application of actuarial assumptions as further explained below.

21. The major actuarial assumptions used as part of the valuation process relate to demographics, economics and health-care claim costs and trends. The demographic assumptions used for the valuation of after-service health insurance are the same as those used by the United Nations Joint Staff Pension Fund (for example, mortality rates, withdrawal rates, retirement rates and marital status), as individuals with current and projected after-service health insurance benefits are a subset of staff who are covered under the United Nations pension plan. The assumptions also take into consideration the fact that not all staff will become eligible or will ultimately elect to participate in the after-service health insurance programme. Economic assumptions, as reflected in the discount rate used for the valuation (5.5 per cent for 2005), are based on the economic environment on the date on which the valuation is measured. Health-care assumptions include health-care claim costs that vary by benefit plan and trend rates that reflect expectations about short- and long-term future increases in health-care costs. Health-care trend rates used by the consulting actuary for the December 2005 valuation were 10.0 per cent for 2006, grading down to an ultimate rate of 5.0 per cent in 2014 and later for medical plans in the United States, and health-care trend rates of 6.75 per cent grading down to an ultimate rate of 4.5 per cent in 2012 and later for medical plans outside of the United States.

IV. Updated valuation of after-service health insurance liabilities

22. In his report, the Secretary-General indicated that accrued liabilities as at 31 December 2003 for the United Nations were $1,484.9 million. The updated actuarial value of the Organization's accrued after-service health insurance liabilities as at 31 December 2005 was calculated as $2,072.8 million. If the United Nations had followed the accrual method of accounting for after-service health

insurance benefits under the International Public Sector Accounting Standards in 2005, then that liability would have had to have been reported in the balance sheet of the financial statements for the biennium ended 31 December 2005[1] instead of only in note 12 to the financial statements. In addition, if actual experience aligns with actuarial assumptions, approximately $409 million (consisting of $177 million in service costs and $232 million in interest costs) would be chargeable as after-service health insurance expenses during the biennium 2006-2007. On the pay-as-you-go basis, where funds are only provided to pay for current retiree medical claims, a total of $102.7 million (after recosting) has been budgeted for after-service health insurance for the current biennium.

23. A copy of the executive summary of the 31 December 2005 actuarial valuation report can be found on the insurance website at www.un.org/insurance (see annex II for website information). A comparison of the components of the accrued after-service health insurance liability as at December 2003 and December 2005 is as follows (in thousands of United States dollars):

	Accrued liability for 2003	*Accrued liability for 2005*
Current retirees	769 950	989 131
Active employees currently eligible to retire	321 502	492 907
Active employees not yet eligible to retire	393 398	590 791
Total	**1 484 850**	**2 072 829**

24. The increase in the accrued liabilities between the two valuation periods is attributable primarily to five main sources of change, namely: (a) the rolling forward of liabilities from one financial period to another because the valuation represents a present value of future costs; (b) updated census information, which reflected an increase in the active and retiree population of covered participants since 2003; (c) updated health claims, which reflected costs that were higher than predicted; (d) updated demographic assumptions that were revised to align with recent changes made in mortality and other assumptions by the United Nations Joint Staff Pension Fund; and (e) the updated discount rate from 6.0 to 5.5 per cent to reflect changes in rates of return on fixed income investments. The impact that each of those elements has had on the change in the valuation of after-service health insurance liabilities from 2003 to 2005 is summarized in annex III.

V. Potential funding strategies for after-service health insurance

25. As noted above, the accrued after-service health insurance liability exceeded $2 billion as at 31 December 2005. The current budget provides for only pay-as-you-go costs of the after-service health insurance programme for the biennium 2006-2007, without setting aside finances to begin funding after-service health insurance liabilities. In view of the expected continued growth of the programme and the rising level of the associated liabilities, the Secretary-General considers it prudent to adopt a funding policy that supports the process of ensuring that adequate

[1] See *Official Records of the General Assembly, Sixty-first Session, Supplement No. 5* (A/61/5 (Vol. I)).

funds are put aside to meet the costs of current plan participants and future benefit liabilities with the aim to fully fund such liabilities. Potential funding strategies towards this end are provided below.

Alternative 1

26. The first alternative for consideration is to fully fund the existing liability by effecting a one-time assessment on Member States for the full amount of accrued liabilities, placing the monies in an independently segregated reserve fund from which the Organization's share of current and future after-service health insurance benefits would be paid. After this assessment, full funding status would be maintained through ongoing additional assessments, estimated at about $177 million for the biennium 2006-2007, to provide for the annual increase in liabilities related to annual service cost accruals for staff who have not as yet reached full eligibility or accrual status, and to adjust for actuarial gains or losses from investment and other experience that may be different than expected per the actuarial assumptions.

Alternative 2

27. The second alternative involves the development of a dedicated long-term funding strategy designed to result in full funding of the programme after a set number of years through a systematic funding process based on specific assessments on Member States at the time the regular budget is approved. It is estimated that an assessment of about $550 million would be required per biennium over the next 12 to 13 bienniums to achieve full funding. Periodic revisions of this amount would be required to adjust for actuarial gains or losses from investment and other sources. Full funding, once attained, would be maintained through additional assessments required to provide for the annual increase in liabilities related to ongoing service cost accruals for staff who have not reached full eligibility or accrual status, and to adjust for actuarial gains or losses from investment and other experience that may be different than expected as per the actuarial assumptions.

Alternative 3

28. A third alternative is to apply a charge against salary costs on all budgets to yield sufficient funds to achieve full funding within a set period of time. This strategy recognizes the fact that staff whose salaries are funded from all fund types are eligible for after-service health insurance benefits. The rate charged against salaries would need to be adjusted periodically to ensure that the amounts required to achieve full funding are met. On the basis of current salary levels, it is estimated that an initial charge of about 13.8 per cent of salaries (yielding an estimated $180.3 million from the regular budget, $103.7 million from peacekeeping budgets and $71.6 million from other extrabudgetary sources) would be required to achieve full funding in about 12 to 13 bienniums. Periodic revisions of this rate would be required to adjust for actuarial gains or losses from investment and other sources. Once full funding is reached, the charge against salaries would need to be redefined to provide for the annual increase in liabilities related to ongoing service cost accruals for staff who have not reached full eligibility or accrual status and to adjust for actuarial gains or losses from investment and other experience that may be different than expected as per the actuarial assumptions.

Alternative 4

29. The fourth alternative combines the continuation of current funding arrangements under the special expenses section of the regular budget and partial funding under the peacekeeping support account for annual costs related to retirees with a charge against salary costs of all budget types to result in full funding of accrued after-service health insurance liabilities within 25 to 30 years. The components of this funding strategy are as follows:

(a) Continue with current funding arrangements from the special expenses section of the United Nations regular budget and partial funding from peacekeeping operations for health benefit costs relating to current and future retirees until full funding has been attained. The 2006-2007 budget estimate of $102.7 million is projected to increase to about $666 million by 2030-2031;

(b) Establish a charge against net base salary against all budget types to yield adequate funds to meet biennial service cost funding requirements. The initial estimated cost is $177 million (representing about 7 per cent of net base salaries) for the biennium 2006-2007, increasing to an estimated $538 million by 2030-2031. Once full funding is attained, the rate chargeable against salaries would need to be reset to provide for the annual increase in liabilities related to ongoing service cost accruals for staff who have not reached full eligibility or accrual status and to adjust for actuarial gains or losses from investment and other experience that may be different than expected per the actuarial assumptions.

Alternative 5

30. This funding strategy combines elements of the above four alternatives and makes use of funds in existing reserves and other sources. The conceptual framework of this alternative is the same as proposed by the Secretary-General in his report, which included and continues to include a one-time funding component to provide an initial infusion of funds into an independently segregated after-service health insurance reserve fund to begin to meet long-term full funding goals, plus systematic funding for the long term, consisting of predictable and flexible, albeit uncertain, elements. As budget provisions had not been made for an initial infusion of funds, balances available in reserve funds and other possible funding sources were reviewed as an alternative to requesting a special assessment from Member States for this purpose. While the previously proposed initial infusion of $350 million included $250 million in unencumbered balances from the budget period 2004/05 and savings on cancellation of prior-period obligations under peacekeeping operations which is no longer available, the overall proposed strategy is still a viable alternative.

31. The updated one-time initial infusion component of this strategy is now revised to $503.5 million, comprising the following:

(a) The transfer of $410 million in unencumbered balances from the budget period 2005/06 and savings on the cancellation of prior-period obligations under peacekeeping operations;

(b) The transfer of $61.5 million from the medical and dental reserves, leaving reserve balances totalling about $91.5 million to meet future and pending claims;

(c) The transfer of $32.0 million from the compensation fund, leaving about $46.9 million to meet future and pending claims.

32. The proposed transfer from unencumbered balances and savings under peacekeeping operations represents about one half of such balances and savings as at the close of the financial period 2005/06. While that amount does not directly relate to the projected after-service health insurance costs in those peacekeeping operations that are providing the $410 million, the balances are recommended as a pragmatic financing mechanism in lieu of requesting a separate assessment from Member States. This recommendation gives recognition to the fact that: (a) those funds were contributed by all Member States in accordance with the peacekeeping scale of assessments; (b) to date no after-service health insurance costs have been charged against peacekeeping funds, since it has not been feasible to do so, although peacekeeping staff have been participating in after-service health insurance; and (c) peacekeeping has been a substantial source of past and present after-service health insurance liabilities. On the basis of analysis of available data on peacekeeping staff payrolled from Headquarters who have retired during the past 10 years, which does not include staff payrolled locally from peacekeeping missions who have retired, it is estimated that 14 per cent of total staff retiring during that period were compensated from peacekeeping funds prior to retirement. While not quantifiable at present, this percentage becomes considerably larger when taking into consideration staff who retire from their parent post after having been assigned to non-established missions. Further increases in this rate are expected because of recent conversions of staff from 300-series to 100-series appointments and as the overall percentage of staff assigned to peacekeeping missions from Headquarters ar l locally continues to increase. It is not inconceivable that over 30 per cent of retiring United Nations staff will have served part or all of their career in peacekeeping missions. A sizeable transfer of funds from peacekeeping is therefore appropriate at this time. The proposed transfer will reduce by about one half the credits that would be applied against the 2007/08 peacekeeping budgets.

33. The medical/dental reserves are in place to provide for unrecorded claims to protect against the risk of adverse claim fluctuations, to address the risk of catastrophic claims and, in the case of programmes outside the United States, to provide for currency fluctuations. The compensation reserve was established to meet requirements under appendix D to the Staff Rules for staff financed by extrabudgetary funds. The proposed transfer of $61.5 million and $32.0 million from the medical/dental reserves and the compensation reserve, respectively, will not endanger those reserves.

34. The previously proposed transfer of $25 million from the authorized retained surplus in the United Nations General Fund is no longer part of the recommended initial infusion, so as to leave the entire $68.3 million balance of retained surplus available to meet cash flow requirements caused by outstanding assessments.

35. In addition to the one-time funding proposed above, systematic funding for the long term aimed at attaining progressive but somewhat indeterminate levels of funding through the use of both predictable and flexible funding elements is proposed as follows:

(a) Continue with current funding arrangements for health benefit costs relating to current retirees as a closed group, with amounts appropriated from the special expenses section of the regular budget, currently budgeted at $102.7 million

for the biennium 2006-2007, and partial funding from the peacekeeping support account currently budgeted at $6 million for the 2007/08 fiscal period, with the combined requirements increasing over the next 10 years to about $150 million per biennium and then gradually declining owing to the demise of participants in this group;

(b) Establish an initial charge equivalent to 8 per cent of net base salary costs on all budget types, estimated to initially yield about $206 million ($104.5 million from the regular budget, $60.0 million from peacekeeping budgets and $41.5 million from other extrabudgetary sources) for the biennium 2006-2007;

(c) Utilize the unspent balance of final appropriations, if any, under the regular and peacekeeping budgets;

(d) Utilize the excess of actual miscellaneous income over budget estimates, if any;

(e) Utilize the savings in liquidation of prior-periods obligations.

36. The first four funding alternatives described in paragraphs 26 to 29 above result in either immediate full funding or projected full funding over a period of 24 to 30 years. The level of funding achievable under the fifth alternative described in paragraphs 30 to 35 above cannot be projected, as the extent of funds that may become available from the funding sources noted in subparagraphs (b) to (e) of paragraph 35 above cannot be fully anticipated. The strategy, however, paves the way to begin funding the United Nations accrued liabilities with the understanding that the results of this strategy will require periodic actuarial review to determine the level of funding achieved and to adjust the rates chargeable against salaries and/or propose special assessments on Member States as may be needed to ensure a consistent and systematic increase in the level of funding.

37. As reflected in the funding strategy proposed by the Secretary-General in his report, the long-term funding strategy proposed under alternative 5 identifies savings under the regular and peacekeeping budgets as a recommended potential source of after-service health insurance funding. The potential savings do not represent efficiency — sustainable savings which, with the prior approval of the General Assembly are to be transferred to the Development Account — but are rather unanticipated fortuitous savings which would otherwise be returned to Member States. Any decision to adjust the rate chargeable against salaries as noted in paragraph 36 above will be made without projecting any potential savings, as such funds cannot be systematically relied upon. However, should such savings materialize, this option proposes the use of such savings to supplement the funding otherwise attained through the charge against salaries. Including these potential funding sources as part of the funding strategy would not lead to possible overbudgeting, as the savings cannot be applied automatically to fund after-service health insurance. Should savings be achieved, their utilization for after-service health insurance funding would require attaining specific approval for the suspension of financial regulations for that purpose. The five potential after-service health insurance funding strategies for the United Nations described above are summarized below (in millions of United States dollars):

	Alternative									
	1		*2*		*3*		*4*		*5*	
	2006-2007	*From 2008 onwards*	*2006-2007*	*From 2008 onwards*	*2006-2007*	*From 2008 onwards*	*2006-2007*	*From 2008 onwards*	*2006-2007*	*From 2008 onwards*
One-time assessment	2 072.8									
Ongoing assessments	177.0	177.0[a]	550.0	550.0[b]			102.7	102.7-666.0[b]	102.7	102.7-150.0[d]
Charge against salaries					355.6	355.6[c]	177.0	177.0-538.0[b]	206.0	206.0[c]
One-time infusion									503.5	
Unspent balances savings and excess miscellaneous income										If and only when available
Total	**2 249.8**	**177.0**	**550.0**	**550.0**	**355.6**	**355.6**	**279.7**	**279.7-1 204.0**	**812.2**	**308.7-356.0**

[a] Ongoing requirement.

[b] To achieve full funding in 12-13 bienniums, followed by additional ongoing assessments to maintain full funding.

[c] 13.8 per cent of salaries, with the amount increasing as salary levels increase, to achieve full funding in 12-13 bienniums, followed by adjusted rates to maintain full funding.

[d] Estimated expenses to fund current retirees as a closed group ranging from the current level of $102.7 million to $150 million for five bienniums and then declining.

[e] 8 per cent of salaries, with the amount increasing as salary levels increase.

38. While the funding strategies described in alternatives 1-3 above (see paras. 26-28 above) will ensure that full funding of the United Nations after-service health insurance liabilities is achieved in a definitive time period, the level of assessments and charges against salary needed to attain the amounts required are significant. These funding alternatives are therefore not considered practicable. Under alternative 4 (see para. 29 above), full funding is achievable by adopting a long-term funding strategy which combines ongoing funding of after-service health insurance liabilities for current and future retirees under the special expenses section of the regular budget and partial funding under the peacekeeping support account with a systematic charge against salary costs of all budget types at a rate set to provide adequate funds to meet the full funding goal. While this option provides a straightforward systematic approach to progressively attain full funding of the Organization's after-service health insurance liabilities within a 25- to 30-year time frame, the amounts required under the special expenses section of the regular budget and the peacekeeping support account to meet annual payout requirements of a growing number of participants are expected to escalate rapidly, putting an undue burden on the regular budget, given that a progressively larger proportion of the participants retiring from posts funded from extrabudgetary sources will not be contributing.

39. Alternative 5 (see para. 30 above) is a two-tiered funding approach aimed at initiating and progressively increasing the level of funding of accrued after-service health insurance liabilities over the long term. It proposes an initial infusion of $503.5 million from the sources indicated in paragraph 31 above, and a long-term funding strategy that combines ongoing funding of after-service health insurance liabilities for current retirees as a closed group under the special expenses section of the regular budget and partial funding under the peacekeeping support account with

a systematic charge against salary costs of all budget types at a variable rate initially set at 8 per cent, with such funds supplemented by utilizing, to the extent available, budgetary savings that would otherwise be returned to Member States. This approach treats current retirees as a closed group for which continued funding from the special expenses section of the regular budget and partial funding from the peacekeeping support account is proposed because a practical mechanism is not available to determine the funding sources to which costs of current retirees were charged over their active careers with the Organization. Implicit in this approach is that funding of annual after-service health insurance costs for new retirees will come from the charge against salaries. As programme support costs currently applied to extrabudgetary activities do not provide for the funding of after-service health insurance benefits, it is recommended that a uniform rate be chargeable against salaries for all fund types, including extrabudgetary funds, specifically for after-service health insurance funding. Given that the charge against salaries under this alternative is lower than would be required to generate adequate funds to attain full funding, in the medium to long term, the need for additional funds is anticipated. Ongoing actuarial reviews will be required to determine the impact that the utilization of savings, if any, would have on funding levels and to determine to what extent a change in the rate chargeable against salaries or a special assessment on Member States would be needed to ensure that a systematic positive increase in funding levels is sustained and that full funding is ultimately achieved.

40. As noted above, the funding strategy described in alternative 5 is an updated version of the strategy proposed by the Secretary-General in his report. The Secretary-General continues to propose this funding alternative, as it represents a dedicated long-term funding strategy that provides predictable and flexible contribution levels which support the process of ensuring that adequate funds are put aside on a regular basis to meet the costs of current participants, while also progressively funding future benefit liabilities. However, given the uncertain level of funding that may be achieved through the utilization of savings, the period of time required to attain full funding status cannot be precisely predicted.

41. In the case of all the funding alternatives presented, periodic review by the actuary will be required to ensure that the funding is actuarially sound and to determine to what extent additional funding will be required through special assessments, or through the increase in the percentage chargeable against salaries in order to attain and subsequently maintain full funding status once achieved. The establishment of an independently segregated after-service health insurance reserve fund will also be required under each of the funding options described. The initial transfers to this reserve will be invested in short- to medium-term securities managed by the United Nations Treasury following the common principles and policies for investments of the United Nations. A detailed investment strategy tailored to meet the longer term anticipated cash flow requirements of the independently segregated after-service health insurance reserve fund will subsequently be developed. This investment strategy will be provided to the General Assembly through the Advisory Committee on Administrative and Budgetary Questions, should the establishment of an independently segregated after-service health insurance reserve fund be authorized and a proposed funding mechanism approved. Discussions have been initiated with the investment management service of the United Nations Joint Staff Pension Fund regarding their management of the after-service health insurance reserves.

VI. Revisions to after-service health insurance provisions

42. A number of revisions to the after-service health insurance programme aimed at reducing future costs of after-service health insurance benefits were proposed by the Secretary-General in his report. The proposals were recommended for approval by the Advisory Committee and are therefore resubmitted for consideration by the General Assembly, with one revision. In the light of ongoing initiatives for harmonization of conditions of service, the proposed revision of the after-service health insurance eligibility requirements has been modified to require that new staff members have 10 years of participation in United Nations health insurance plans both to be eligible to participate in and to receive cost-sharing benefits under the after-service health insurance programme. This modification increases the minimum period of service required for eligibility from 5 years to 10, thereby eliminating the 5-year buy-in provision for all new staff hired after the revision is adopted. The current service requirement of 10 years for cost-sharing benefits would be retained rather than increasing it to 15 years, as previously proposed. All other revisions continue to be recommended as previously proposed by the Secretary-General in his report, with relevant actions requested to be taken included under section XI below.

VII. International Tribunal for the Former Yugoslavia

43. The updated valuation report for the International Tribunal for the Former Yugoslavia as at 31 December 2005 estimates the net accrued liability to be $17.5 million, compared with $9.4 million estimated as at 31 December 2003. No portion of the liability has been funded pending the establishment of a funding mechanism to be approved by the General Assembly. The Tribunal was established as a temporary body; hence, immediate steps to begin funding the accrued liability and accrual for current service costs should be initiated. Annual funding is required to cover current service and interest costs and to amortize the $17.5 million net accrued liability over the remaining years of the Tribunal's operation. Revised proposals to the General Assembly to approve a charge of 8 per cent of the annual payroll and funding from the savings in liquidation of prior-year obligations and any excess of actual miscellaneous income over the budgeted amounts are included in section XI of the present report. The 8 per cent charge on payroll would yield approximately $4.1 million, which is expected to cover the $4.1 million estimated as current service and interest costs for 2007. Any shortfall in funding the liability should be included in the biennial performance report and considered as part of the budget formulations for future bienniums. As part of the eventual closure of the Tribunal, it will be necessary to take into consideration the accrued unfunded liabilities of the staff of the Tribunal and ensure that the residual amount is appropriately funded prior to closure.

VIII. International Criminal Tribunal for Rwanda

44. The updated valuation report for the International Criminal Tribunal for Rwanda as at 31 December 2005 estimates the net accrued liability to be $24.7 million, compared with $13.1 million estimated as at 31 December 2003. No portion of the liability has been funded pending the establishment of a funding mechanism to be approved by the General Assembly. Because of the temporary nature of the

Tribunal, funding of the accrued liability and accrual for current service costs should be expedited. Annual funding is required to cover current service and interest costs and to amortize the $24.7 million net accrued liability over the remaining years of the Tribunal's operation. Revised proposals to the General Assembly to approve a charge of 8 per cent of the annual payroll, the utilization of savings in liquidation of prior-year obligations and any excess of actual miscellaneous income over the budgeted amounts to partially fund the liability are included in section XI. The 8 per cent charge on payroll would yield approximately $3.3 million of the $4.7 million estimated as current service and interest costs for 2007. Any shortfall in funding the liability should be included in the biennial performance report and considered as part of the budget formulations for future bienniums. As part of the eventual closure of the Tribunal, it will be necessary to take into consideration the accrued unfunded liabilities of the staff of the Tribunal and ensure that the residual amount is appropriately funded prior to closure.

IX. United Nations Compensation Commission

45. The updated valuation report of the United Nations Compensation Commission as at 31 December 2005 estimates the net accrued liability to be $2.9 million, compared with $0.5 million estimated as at 31 December 2003. No portion of the liability has been funded, pending the establishment of a funding mechanism to be approved by the General Assembly. The Commission has determined that 10 staff members currently on board are due to retire before the closure of the Commission, so the accrued liability represents costs associated with those individuals and 5 current retirees. As part of the eventual closure of the Commission, it will be necessary to take into consideration the accrued unfunded liabilities of the Commission's retirees and ensure that the residual amount is appropriately funded prior to closure.

X. Conclusions

46. After considering the Secretary-General's report on liabilities and proposed funding for after-service health insurance benefits and the related report of the Advisory Committee on Administrative and Budgetary Questions, the General Assembly, in section III of its resolution 60/255, recognized the end-of-service accrued benefit liabilities and requested the Secretary-General to take the necessary steps to disclose those liabilities in the financial statements of the United Nations. Such action is also required under the recently approved decision that the United Nations move to the International Public Sector Accounting Standards. While this action places the liability for after-service health insurance on the Organization's balance sheet, a systematic funding strategy also needs to be adopted in order to ensure that sufficient resources are available to meet all such liabilities as they become due in the future. As annual payout requirements are projected to escalate rapidly, it is prudent to begin putting funds aside on a regular basis to build a reserve to meet those costs so as to avoid putting an undue burden on subsequent years.

47. The present report provides the additional information and the liability valuation update requested by the General Assembly in section III of its resolution 60/255 and presents five potential strategies to fund the United Nations obligation to

provide after-service health insurance benefits. Of the five alternatives described, the fifth is proposed for approval by the General Assembly. This strategy does not change the approach defined in the Secretary-General's report, but does revise the specific elements, taking into account the passage of time and a change in available funding sources. The previously proposed charge of 4 per cent against salary costs of all fund types has accordingly been revised to 8 per cent. Should the General Assembly approve the proposal to fund the United Nations liability from an 8 per cent charge on payroll costs and from surpluses, Member States would be required to pay more in assessed or pledged contributions.

48. The present report provides updated values of the liabilities determined based on actuarial studies done as at 31 December 2005. As stated by the Secretary-General in his report and reiterated herein, actuarial studies will have to be updated on an ongoing basis to refine annual funding requirements, taking into account funding levels achieved, and to reflect changes in membership, benefit entitlements and in overall economic and medical cost trends. Funding methods and percentage of salary contributions will also require frequent reviews.

49. The Secretary-General attaches a high degree of importance to the after-service health insurance programme as it provides a vital element of social security for retiring staff members, many of whom cannot benefit from the national social security scheme of Member States owing to their service with the United Nations. Given the size of the after-service health insurance liabilities, full funding of the accrued liabilities for the United Nations cannot be achieved in the short to intermediate term. The adoption of a dedicated funding strategy that aims at progressively attaining full funding of accrued liabilities over the long term will serve to ensure the financial viability of the programme.

XI. Actions to be taken by the General Assembly

50. **The actions to be taken by the General Assembly to fund the presently accrued liability for after-service health insurance benefits of the United Nations, the International Tribunal for the Former Yugoslavia, the International Criminal Tribunal for Rwanda and the United Nations Compensation Commission and to fund the annual incremental accrual for employees in the active service of those entities and any other for which the United Nations becomes responsible for maintaining the accounts are as follows:**

(a) **Approve the establishment of an independently segregated special account for an after-service health insurance reserve fund to be used to meet current and future after-service health insurance liabilities;**

(b) **Approve the funding of current and future after-service health insurance liabilities of the United Nations with effect from 1 January 2007 and transfer it to the special account for the after-service health insurance reserve fund as follows:**

(i) **Initial funding of $503.5 million:**

a. **Transfer of $410.0 million from unencumbered balances and savings on or cancellation of prior-period obligations of active peacekeeping missions as at the end of the 2005/06 fiscal year;**

b. $61.5 million would be transferred from the medical and dental reserves;

c. $32.0 million would be transferred from the compensation fund to partially fund the United Nations liability;

(ii) Ongoing funding:

a. Continue biennial appropriations and partial funding under annual peacekeeping support account appropriations to cover subsidy payments in respect of current after-service health insurance participants;

b. Establish a charge equivalent to 8 per cent of salary costs to be applied against the budgets to which staff salaries are charged;

c. Utilize unspent budget appropriations in the United Nations regular and peacekeeping budgets;

d. Transfer any excess of actual overestimated miscellaneous income;

e. Transfer of savings from liquidation of prior-year obligations;

(c) Approve changes to the after-service health insurance provisions for new recruits as follows:

(i) Align after-service health insurance eligibility and subsidy requirements to 10 years' minimum participation in United Nations health insurance plans, eliminating the buy-in provision after five years of participation;

(ii) Introduce the application of a theoretical pension of a minimum of 25 years of service as the basis of assessing retiree contributions as opposed to using the actual number of years of service when less than 25;

(iii) Introduce a minimum participation requirement for after-service health insurance eligibility of dependants of at least five years at the time of retirement of the United Nations employee, or two years if the spouse has coverage with an outside employer or a national Government, except where the dependant is newly acquired within this period and is enrolled within 30 days of the effective date of the dependency relationship;

(d) Approve funding of current and future after-service health insurance liabilities of the International Tribunal for the Former Yugoslavia with effect from 1 January 2007 as follows:

(i) Establish a charge equivalent to 8 per cent of the Tribunal's salary costs to fund the liability;

(ii) Transfer any excess of actual over the Tribunal's estimated miscellaneous income;

(iii) Utilize savings due to liquidation of the Tribunal's prior-year obligations;

(iv) Utilize unspent budget appropriations from the biennial budget of the Tribunal;

(e) Approve funding of current and future after-service health insurance liabilities of the International Criminal Tribunal for Rwanda with effect from 1 January 2007 as follows:

(i) Establish a charge equivalent to 8 per cent of the Tribunal's salary costs to fund the liability of the Tribunal;

(ii) Transfer any excess of the Tribunal's actual over estimated miscellaneous income;

(iii) Utilize savings due to liquidation of the Tribunal's prior-year obligations;

(iv) Utilize unspent budget appropriations from the biennial budget of the Tribunal;

(f) Approve funding of after-service health insurance liabilities of the United Nations Compensation Commission as a part of the wind-up costs of the Commission.

51. In accordance with the approval by the Assembly of the measures outlined above, separate special accounts for post-retirement benefits and retiree premiums would be established for the United Nations, the International Tribunal for the Former Yugoslavia, the International Criminal Tribunal for Rwanda and the United Nations Compensation Commission. Those reserves would be used to account for all transactions from various sources mentioned above and to record ongoing expenditures for after-service health insurance. All balances in those reserves will be earmarked for after-service health insurance to ensure that adequate funds are available to meet future costs.

Annex I

Description of the plans under the United Nations health insurance programme

1. The Headquarters Aetna Open Choice, Empire Blue Cross Blue Shield and CIGNA Dental plans, while designed to provide appropriate coverage within the United States, all provide international coverage for staff and retirees and are structured as preferred provider organizations (PPOs). PPOs are group systems of health care organized by individual insurance companies in which physicians, health-care providers of all types, hospitals and clinics sign contracts with the PPO system to provide care to its insured people. The medical providers, considered "in-network", accept the PPO's fee schedule and guidelines for its managed medical care. The insured members provide a co-payment for each medical service when rendered. Each subscriber also has a yearly deductible to pay out of pocket before the plan will start paying medical fees for services provided out of the network. The structure of PPO plans encourages the subscriber to use the physicians, other medical providers and hospitals in the plan network, as a higher proportion of the medical expenses are covered when in-network providers are used.

2. The Aetna Open Choice PPO and the Empire Blue Cross Blue Shield PPO are both self-funded plans that provide unlimited coverage to staff members and former staff members worldwide. The plans reimburse for inpatient and outpatient hospital services, professional (physician) services, preventive care, mental health and substance abuse services and medications. Hospital services under the Blue Cross plan are reimbursed at 100 per cent if provided by a PPO participating hospital and at 80 per cent if services are provided by a non-participating hospital. Under the Aetna plan, hospital services both in and out of network are reimbursed at 100 per cent. In the case of both the Aetna and Blue Cross plans, a participant's co-payment for professional services from a physician in the plan's PPO network is $10 (a few specific services require a $35 co-payment). If a participant receives treatment from a physician who is not a member of the relevant PPO network, the physician will be reimbursed 80 per cent of reasonable and customary charges. The staff member will be charged a deductible and be required to pay the balance due after the 80 per cent reimbursement. Prescription drugs are covered when obtained from a network pharmacy at a maximum cost to the participant of $15 per prescription. When an out-of-network pharmacy is used, the plans cover 60 per cent of the charge within the United States of America and 80 per cent of the charge outside the United States. The maximum out-of-pocket expense per calendar year is $1,150 per participant and $2,950 per family under the Blue Cross plan and $1,125 per participant and $3,375 per family under the Aetna plan, after which 100 per cent of most medical expenses is covered under the plans.

3. The HIP Health Plan of New York is a health maintenance organization (HMO) providing medical coverage to United Nations staff and retirees who live in New York. It follows the concept of total prepaid group practice hospital and medical care; that is, there is no out-of-pocket cost to the participant for covered services at numerous participating medical groups in the greater New York area. The costs of necessary worldwide emergency treatment obtained outside the covered area are included in the plan coverage. The HIP HMO plan covers inpatient and outpatient hospital services, professional (physician) services, preventive care,

mental health and substance abuse services and medications. Participants are charged $5 per prescription for medications.

4. The CIGNA Dental PPO programme is self-funded and covers staff members and former staff members worldwide. The dental programme provides reimbursements for diagnostic, preventive and restorative care. Reimbursements are subject to an overall maximum of $2,250 per participant per programme year. Orthodontic services are subject to a separate lifetime maximum of $2,250.

5. The Van Breda Insurance programme is a self-funded comprehensive major medical health benefit that covers staff members and former staff members who work or reside in all parts of the world, except the United States. Van Breda has negotiated discounted prices at many hospitals and clinics all over the world including in the United States. Van Breda covers inpatient hospital expenses, outpatient hospital services, professional services and medications. The plan provides for the reimbursement of reasonable and customary charges incurred for medical and hospital treatment that result from illness, accident or maternity, up to a maximum to $250,000 per insured participant per calendar year. Expenses related to dental, hearing and vision care are also covered. Inpatient hospital services are reimbursed at 100 per cent of reasonable and customary charges. Outpatient hospital services, professional services and medications are covered at 80 per cent of the reasonable and customary charges, with maximum co-payments of $200 per participant and $600 per family per calendar year. When co-payments reach the calendar year maximum, the programme reimburses 80 per cent of the residual 20 per cent for the remainder of the calendar year, in effect thereafter reimbursing 96 per cent of reasonable and customary expenses. Staff and retirees with Van Breda coverage have free choice of medical practitioners and no consequence to the member's reimbursement of covered medical expenses regardless of the practitioner who delivers the service. However, the maximum daily hospital coverage amount (currently set at $600) limits the amount of reimbursement if treatment is obtained in high-cost areas, such as New York.

6. The United Nations Staff Mutual Insurance Society against Sickness and Accident, is a self-insured and self-administered health mutual insurance society covering staff members, retirees and respective dependants from Geneva-based Secretariat entities (including the United Nations Office at Geneva, the United Nations Conference on Trade and Development, the Office of the United Nations High Commissioner for Human Rights, the Office of the United Nations High Commissioner for Refugees, the Economic Commission for Europe, the Office for the Coordination of Humanitarian Affairs, the Office of Internal Oversight Services and the United Nations Environment Programme), programmes, specialized agencies, subsidiary organs and other United Nations entities (including the United Nations Development Programme, the United Nations Population Fund, the United Nations Children's Fund, the World Meteorological Organization, the United Nations Industrial Development Organization, the International Trade Centre UNCTAD/WTO, the United Nations Joint Staff Pension Fund, the United Nations Institute for Training and Research, the United Nations Compensation Commission, the United Nations Research Institute for Social Development, the United Nations Institute for Disarmament Research and the Joint Inspection Unit). It also provides health insurance to the same group of individuals in organizations based in Bonn, Germany (the United Nations Volunteers, the United Nations Framework Convention on Climate Change and the United Nations Convention to Combat

Desertification) and Turin, Italy (the United Nations System Staff College). Coverage is worldwide and Society members have free choice in selecting a medical provider. Since approximately 65 per cent of insured members live in the Geneva region, the Society has set up a network of selected health service providers in that region, with whom preferential fees have been negotiated, together with other insurance plans of international organizations in Geneva (namely, the European Laboratory for Particle Physics, the International Labour Organization/International Telecommunication Union and the World Health Organization). A number of measures are adopted by the Society in order to contain exposure. For instance, reimbursements to an insured person obtaining medical care away from his/her duty station or domicile where medical costs are higher than those in Geneva, are limited to the equivalent costs in Geneva. Other measures to address specific local conditions are in place, such as the case of hospitalization in the United States, where the Society uses an intermediary or a network established by the same intermediary in order to negotiate prices. The Society reimburses for inpatient and outpatient hospital services, professional (physician) services, preventive care, mental health and substance abuse services, medications, dental treatment and prescription eyeglasses. Hospitalizations are covered at 75, 90 or 100 per cent, depending on the type of room and/or hospital establishment. Fees related to surgical operations are reimbursed at 90 per cent. Other medical services are generally covered at 80 per cent. Some treatments and services, such as dental treatment, optical expenses, physiotherapy and psychotherapy, have maximum annual credits and/or are limited in terms of number of sessions and amounts reimbursable. In certain cases (hospitalizations, doctor fees, post-operative convalescence), supplementary benefits are applicable when the share paid reaches 2,800 Swiss francs per insured person for a given calendar year.

7. The Medical Insurance Plan is a self-funded, self-administered health benefit scheme offered to locally recruited staff and former staff at duty stations away from Headquarters. The Plan covers hospital services, professional services and medications. Professional services include doctors' visits, midwife care, laboratory tests and X-rays. Medications include drugs and medicines that are prescribed by a physician and that are necessary for the treatment of an illness and immunizations for children. Hospital care is reimbursed at 100 per cent of the "semi-private accommodation" rate, while professional services and medications are reimbursed at 80 per cent of reasonable and customary charges at the staff member's duty station. Reimbursement for treatment received outside of the staff member's duty station is limited to the reasonable and customary charges that would have been charged for those services at the duty station to which the staff member is assigned.

8. The Austrian Sickness Insurance Scheme operates somewhat like a health maintenance organization in the United States in that it provides coverage in Austria for treatment by a medical practitioner or institution under contract with the scheme. In the event that medical expenses are incurred abroad or within Austria with a medical practitioner or institution not under contract with the scheme, reimbursement is limited to the amount that would have been paid to a medical practitioner or institution under contract in Austria. Except for some nominal fees, medical treatment is for the most part rendered free of charge. Hospital treatment is provided under the plan in the general ward accommodation of public hospitals or in hospitals under contract with the scheme. The United Nations Office at Vienna/the United Nations Industrial Development Organization Group Medical Insurance with

Van Breda provides supplementary coverage to the Austrian Sickness Insurance Scheme or, if a staff member or retiree is not covered by that plan, provides worldwide comprehensive coverage with hospitalizations covered at 70, 90 or 100 per cent, depending on the type of room and/or hospital establishment. Other medical and dental costs and prescribed medicines are generally covered at 80 per cent of reasonable and customary costs, with some upper limits for services such as dental treatment, optical lenses and hearing aids. A major catastrophic medical expense component of the plan provides for coverage of 100 per cent of medical costs after costs within a 12-month period exceed 5 per cent of annual emoluments.

Annex II

United Nations websites providing information on health insurance plans

Insurance plan	Internet location
(a) Headquarters programmes	http://www.un.org/insurance (under forms and circulars)
(i) Aetna Open Choice Preferred Provider Organization	
(ii) Empire Blue Cross Blue Shield Preferred Provider Organization	
(iii) Health Insurance Plan of New York	
(iv) CIGNA Dental Preferred Provider Organization	
(b) Van Breda International Insurance Programme	http://www.un.org/insurance (under forms and circulars)
(c) Medical Insurance Plan for locally recruited staff at designated duty stations away from Headquarters	http://www.un.org/insurance (under forms and circulars)
(d) United Nations Staff Mutual Insurance Society against Sickness and Accident	http://157.150.64.200/assmut/Statutes.pdf
(e) United Nations Office at Vienna/United Nations Industrial Development Organization Group Medical Insurance with Van Breda	https://www.unodc.org/hrsa/finance/personal_insurances.html
(f) Austrian Sickness Insurance Scheme (Wiener Gebietskrankenkasse)	https://www.unodc.org/hrsa/finance/personal_insurances.html

Annex III

Main sources of change in valuation of the United Nations after-service health insurance liabilities

The main sources of change in the valuation of the United Nations after-service health insurance liabilities from 2003 to 2005 are enumerated below (it should be noted that the percentages indicated under each source are multiplicative, resulting in the total increase of approximately 40 per cent):

1. *The rolling forward of liabilities from one financial period to another*: liabilities increase with service cost and interest and decrease with benefit payments. The impact of the rolling forward of liabilities over a two-year period can be as high as 60 per cent for groups that have few or no retirees and may be relatively small for groups that are heavily weighted with retirees. In the case of the United Nations, the rolling forward represented about 12.5 per cent of the increase in accrued liabilities;

2. *Updated census information*: increases or decreases in active and retiree census figures compared with the prior valuation have a related impact on the valuation. The extent of impact also depends upon the changes in distribution by plan election, age and active service. The impact is generally greater for relatively small groups than for larger ones. In the case of the United Nations, the updated census data added about 5 per cent to the accrued liability figure;

3. *Updated claim costs*: in general, experience with medical claims in the past few years has been higher than predicted by most of the medical trend assumptions used for actuarial valuations. To the extent that experience with aggregate claims for the United Nations group exceeds the medical trend assumptions used in the prior valuation, an increase in liability values will occur. Four per cent of the increase in the accrued liability figure was due to this factor;

4. *Updated demographic assumptions*: the after-service health insurance valuation makes use of the same demographic assumptions as used by the United Nations Joint Staff Pension Fund, which has an impact on current valuations to the extent that those assumptions differ from those used in previous years. Changes made in the past few years by the United Nations Joint Staff Pension Fund in mortality, termination and retirement assumptions as reflected in the current after-service health insurance valuation have resulted in an increase of about 6 per cent in the liability figures;

5. *Updated discount rate*: discount rate assumptions have a considerable effect on valuations. The rate used to discount after-service health insurance liabilities for the United Nations entities participating in the actuarial valuation exercise was changed from 6 per cent in the prior valuation to 5.5 per cent in the current one based on the projected cash flow and current interest rate environment. The impact of this change was a general increase in liabilities by between 8 per cent and 11 per cent, with organizations with younger staff and few or no retirees experiencing more of an impact than organizations with older staff and a high percentage of retirees. The impact on the United Nations valuation was about 8 per cent.

Annex IV

Glossary of terms

Accrued liability — The actuarial present value of benefits attributed to employee service rendered to a particular date. Prior to an employee's full eligibility date, the accumulated post-retirement benefit obligation as of a particular date for an employee is the portion of the expected post-retirement benefit obligation attributed to the employee's service rendered to that date. On and after the full eligibility date, the accumulated and expected post-retirement benefit obligation for an employee is the same.

Accrual basis — The accrual basis of accounting for revenue in each financial period recognizes income when it is earned or due and not when it is received. Accrual of expenditure in each financial period means that costs are recognized when obligations and/or liabilities are incurred and not when payments are made.

Actuarial present value — The current worth (on the valuation date) of an amount or series of amounts payable in the future. The actuarial present value is determined by discounting the future payments at a predetermined rate of interest, taking into account the probability of payment.

Actuarial valuation — The determination of the accrued liability at the end of a financial period based on certain actuarial assumptions, discount rates and plan provisions.

Amortization — The process of recognizing unfunded liabilities over several financial periods.

Benefits — Health-care benefits or coverage to which participants in the after-service health insurance plan are entitled.

Cash basis — Accounting for benefits by expensing the costs when benefits are actually paid.

Current service costs — The cost of post-retirement benefits earned during the current period of employee active service.

Discount rates — The estimated interest rates at which post-retirement benefits could be effectively settled. Assumed discount rates are used in the measurement of the present value of future post-retirement benefit obligations.

Funded liability — The accrued liability for which the Organization sets funds aside to pay benefits at a future date.

Health-care trend rates — Assumptions about the annual rate of change in the cost of health-care benefits.

Interest cost — The accrual of interest on the accumulated post-retirement benefit obligation due to the passage of time.

Pay-as-you-go — To budget and fund the liability as it is due and payable for the budgetary period only. It is to be distinguished from pre-funding, which will build assets to pay liabilities in advance of when they are due and payable.

Post-retirement benefits — Benefits provided by the Organization other than pension income to employees who retire from the system.

Post-retirement benefit fund — A specific account set up for asset accumulation for the purpose of paying post-retirement benefits when they are due. These assets are generally restricted to pay post-retirement benefits.

Projected unit credit method — (accrued benefit method) — An actuarial valuation method used to determine the present value of the defined benefit obligations and the related current and prior service cost. It measures each unit of benefit separately to build up the final obligation.

Accounting standards

United Nations System Accounting Standard 57 — Provides that liabilities for post-retirement benefits should be provided for in the accounts to the extent required by the financial policies of the Organization. Liabilities that are not fully provided for should be appropriately disclosed in the notes to the financial statements. Estimated liabilities should be quantified where possible, and the basis of valuation disclosed.

Financial Accounting Standard 106 — Requires advance recognition of liabilities for future payment of post-retirement benefits that are to be accrued over the working life of the employees. Under Standard 106, annual recognition of the liability requires expensing the service cost, interest cost and amortization amounts during the period — accrual basis of accounting is applied.

International Financial Reporting Standard 19 — Requires an organization to account for its obligation to pay benefits and to determine the present value of the obligation using the projected unit credit method and assumptions relating to demographics and financial variables.

International Public Sector Accounting Standard exposure draft 31, employee benefits — Is the relevant (draft) International Public Sector Accounting Standard which is based on International Financial Reporting Standard 19, employee benefits. The requirements of exposure draft 31 are the same as those in International Financial Reporting Standard 19 cited above, with only two significant differences. The first difference is the discount rate applied when valuing long-term liabilities. Exposure draft 31 requires that the rate for government bonds, rather than high-quality corporate bonds, be the first choice of discount rate. The second difference is the treatment of first-time adoption adjustments, which is more comprehensively dealt with in exposure draft 31 to allow for situations where no liability has previously been reported.